**Management and Business Administration Doctoral School**

# SUMMARY OF THESES

**to the Ph.D. dissertation of**

**Ágnes Márta Dr. Saxné Dr. Andor**

titled

## The Accounting Theory of Intangible Assets and its Application Under the Hungarian Regulations

**Supervisor**

**Dr. János Lukács, CSc**
associate professor

Budapest, 2014

**Financial Accounting Department**

# SUMMARY OF THESES

**to the Ph.D. dissertation of**

**Ágnes Márta Dr. Saxné Dr. Andor**

titled

## The Accounting Theory of Intangible Assets and its Application Under the Hungarian Regulations

**Supervisor**

**Dr. János Lukács, CSc**
associate professor

# Contents

# 1. Background and preliminary observations

Nobody would likely dispute that the key driver of technological advancement in the 20th century was an overpowering need to innovate and obtain new knowledge and information. Although we are still in the early 2010s, it is safe to say that the same will be true, even more so, in the 21st century. Power and wealth are no longer connected only to the ownership of physical assets. This is as true for businesses as for state authority, foreign policy or the private realm. The factor by which performance is measured, both at a macroeconomic level and in business operation, is *growth*. But growth – winning over new clients and customers – comes at a price. In this ongoing struggle, sometimes with ourselves, the ability for renewal is crucial. Renewal is possible through creating new, revolutionary technologies, or through pursuing a successful campaign to convince customers that the new product will improve their lives. Whatever the outcome, both solutions are of *economic value*. What is the secret behind Prezi's success? Why do millions of people feel more "valuable" if they own an iPhone? And what's in it for Prezi.com or Apple?

The innovations that advance the world can be called the results of pure genius, ingenuity or blind luck, but one thing is common to all: *they are based on human creativity and knowledge – in short, intellectual capital*. In the economy, the diversity of intellectual capital manifests itself in the same way at a multinational enterprise as in a small, local accountancy company. Therefore, businesses rely on intellectual capital in their operation, and corporate strategy. This reliance is not exclusive, but it undoubtedly plays a role.

The economic footprints of business operation are manifold: in the market, these footprints are most evident in the products and services created, in accounting, in the financial statements. Much research has been done and many papers have been written on the purpose, role, and usefulness of financial statements. Two issues seem to be especially relevant here. On the one hand, *financial statements reflect the past,* i.e. they present completed events, figures, and data in a systematic way. On the other, their stated aim is to give *a true and fair view* of a company's operation. This means that accounting regulations make a distinction between the investors' and the owners' perspective, and side with the latter. The dominant emphasis on the principle of prudence ensures the reliability of the data shown in the financial statements. However, it may not be the case under all circumstances that the picture presented is also true. In my view, the principle of truth is violated the most conspicuously in the case of intangible assets, as truth is sacrificed at the altar of

reliability. If one accepts the notion that the operation of businesses in the 21st century relies to a large extent on intellectual capital, the following question may justifiably arise: *to what extent can financial statements serve as a basis for important business decisions, and how trustworthy are they if they only show a fraction of this intellectual capital?*

Although research on intellectual capital is wide-ranging, both internationally and in Hungary, less focus has been given to the accounting treatment of the subject. In Hungary, the accounting aspects of intellectual capital have received scarce scholarly attention [see Laáb (1994) and Juhász (2004)], and only a small number of empirical studies have been conducted to date. *The primary objective of this research is to contribute to the accounting theory and empirical research of intangible assets in Hungary.*

*Several areas of research* are related to intangible assets recognised in financial statements. These areas include: studies on the purpose and usefulness of financial statements, intellectual capital management (including, in particular, human resources management), theoretical research focusing on the measurement of intellectual capital, the production of information on intellectual capital as a field of inquiry, and intellectual property rights as a separate area of law. *The main focus of my research is the definition of intangible assets from an accounting perspective***.** In order to give a better understanding and theoretical background, I will also summarize the most important findings of other relevant fields. These, however, will be confined to the essentials, for brevity.

Within the scope of the accounting approach, I will primarily examine *matters related to the Hungarian accounting regulations*. Therefore this paper does not discuss *taxation questions* as part of research. For a number of reasons, I will also deal with the relevant *international accounting standards* (IFRS and US GAAP) as part of my theoretical research. In dealing with theoretical questions I will focus on international regulations that have so far received scarce treatment in Hungarian regulations and professional publications, and in respect of which the Hungarian regulations adopt the reasoning of international standards and foreign publications. Another reason for including international standards in the theoretical part is that in Hungary consolidated financial statements of listed companies must be prepared and disclosed in accordance with IFRS. Therefore, IFRS standards have direct practical implications in Hungary, although at present they only affect a very limited number of businesses.

*The scope of theoretical publications and empirical research on the accounting of intangible assets in Hungary is not extensive, especially when compared to research conducted abroad.* Due to this scarcity of Hungarian resources, my research relies more on foreign publications.

In addition to a focused overview of theories on intellectual capital, my research is primarily centred on *three important subjects in accounting*: *capitalisation criteria* (i.e. the criteria for recognition in the balance sheet), *valuation,* and *disclosure*. However, I will not include a comprehensive, itemised description of accounting regulations under these three key topics. Within intangible assets, the research focuses on concrete, identifiable assets, and for this reason I will not deal with the detailed accounting regulations of goodwill, either.

*I have conducted my empirical research among Hungarian companies and accounting professionals.* This approach has allowed me to draw on my familiarity with the Hungarian economic and social situation, and reach more substantiated conclusions. On the other hand, my research aims to contribute to existing related research and publications in Hungary.

My dissertation seeks to answer the following *research questions*:

1. How faithfully do financial statements reflect the role of intellectual capital in the economy? What factors make it difficult to recognise specific items of intellectual capital in financial statements?
2. Is it possible to differentiate between economic entities in the Hungarian regulatory environment based on the recognition of intangible assets in financial statements?
3. How often and with what methods do Hungarian companies value intangible assets in accounting procedures?
4. What are the characteristics of disclosures related to intangible assets among Hungarian companies, and what factors influence them?
5. To what extent are the structure and logic underlying accounting regulations on intangible assets aligned with their practical implementation?

The theoretical inquiry of this dissertation, the hypotheses and the empirical research conducted to verify them, are centred around these ideas.

## 2. Methodology

To check the validity of the hypotheses, the *statistical population* included companies subject to the Accounting Act that prepare their financial statements using double-entry bookkeeping. When verifying the hypotheses, I primarily relied on three data sources.

**Data from corporate income tax returns (AB1 database)**

I have collected some of the empirical data from 2011 corporate income tax returns (form 1129) made available under a cooperation agreement between the National Tax and Customs Administration and Corvinus University of Budapest. The database contained the data of economic entities required to submit Hungarian corporate income tax returns, without any identifiable information. I selected this well-populated database as an empirical resource because Hungarian corporate income tax returns included data relevant to my research. The database included 319 variables of 409,007 organisations. Before verifying the hypotheses, I deemed it necessary to filter the database, so I filtered out taxpayers that did not belong in the statistical population, and other variables that were irrelevant to the research. I also excluded tax returns from which both the data pertaining to intangible assets and the balance sheet total were missing, as these figures were essential to the analysis. As a result, *400,403 sampling units* remained in the database, which served as a starting point for the statistical analyses. The corporate income tax return data were fully included after the filtering.

**Data from the separate financial statements (AB2 database)**

The data table obtained from the AB1 database did not contain all of the data required for testing the hypotheses. I therefore supplemented the analysis of the AB1 database with the analysis of separate corporate financial statements. The data available from the corporate income tax returns pertained to the 2011 business year, so in order to ensure consistency I only included financial statements for the 2011 business year. The disclosed, publicly accessible financial statements were selected by simple random sampling (without replacement), which means that each item in the data set had an equal chance of being selected. Following the filtering, each item in the statistical population was assigned a serial number, from which the items to be included in the sample were selected using a random-number function. The size of the AB2 database was capped at 300

financial statements as samples. I was unable to include 32 percent of the initial sample in the analysis: companies established after 2012 (and therefore not having financial statements for the 2011 business year), companies being dissolved or companies against which debt settlement proceedings were underway, and companies that failed to submit their financial statements. This left the *financial statements of 205 companies* in the analysis. The small sample size cannot be regarded as representative. Moreover, the sample contains mostly micro-enterprises, and therefore no trends can be established in respect of company size. I therefore supplemented the sample by including the 2011 financial statements of 53 companies listed on the Budapest Stock Exchange in 2011. During the analysis, I reviewed the numerical (balance sheet and profit and loss account) and textual (notes) parts of the financial statements.

**Data from the certified public accountant survey (AB3 database)**

For the empirical research, I also used data from a questionnaire which I compiled. One of the main criteria for the selection of the target group was that a substantial number of accounting professionals work for more than one company, so they provided insight into the accounting practices of a wider scope of businesses. Therefore, instead of focusing on a specific business year or economic entity, the questionnaire aimed to find out about the experience and practices of the accountants preparing the financial statements. The survey was conducted among certified public accountants who took part in mandatory professional development courses, between February and September 2013. The 600 accountants who took part in the courses submitted 116 completed questionnaires, which amounts to a response rate of 19 percent. From the completed questionnaires, 114 could be evaluated. The survey questions were aimed at gathering the data necessary for testing the hypotheses. I only included closed-ended questions in the questionnaires, and answers had to be provided on a scale of 1 to 6 (where 1 meant, for example, “It did not occur in any financial statements,” and 6 meant “It occurred in all financial statements”). For some questions, I added an additional category to the 1-to-6 scale): “N,” which stands for lack of occurrence, e.g. “I have no such clients”). For these questions, a scale of 1 to 6 or 1 to 7 was thus available. The main reason for choosing a scale-based selection was to ensure that the largest possible sample can be collected, as this method allows for easy completion and encourages responses. The primary objective of the survey was to gain insight into accounting practices related to intangible assets, and not the collection of exact data. Therefore, the advantages of a larger sample outweighed the disadvantages

of data loss resulting from the scaled responses. The results of the questionnaire were fully processed.

I supplemented the statistical results of the numerical data obtained from the different databases and the survey with *in-depth interviews*. The personal discussions with auditors and accounting professionals were focused on the certified accountants' survey questions. My objective was to interpret and evaluate together the key topics of this dissertation (capitalisation, valuation, and disclosure) and the responses.

During the *statistical analysis* of the hypotheses, I calculated additional variables from the numerical data (for example, the ratio of intangible assets to the balance sheet total). I examined the size differentiation of Hungarian companies by balance sheet total and turnover. During the review of corporate income tax returns and the separate financial statements, I analysed distributions and ratios, and performed correlation calculation and cluster analysis. In the survey responses, I measured percentage distribution, and carried out the Friedman test and the Wilcoxon signed-rank test (where applicable).

The statistical processing of the data sets was carried out using the IBM SPSS Statistics 20 software package provided by Corvinus University of Budapest.

# 3. Results of the theses

## *3.1. Formulating and proving Hypothesis H1*

The first hypothesis centres on the basic problem widely explored in professional literature that the prerequisites of capitalising intangible expenses (investments) are difficult to fulfil. The economic value of intangible assets is mostly attributable to novelty and individuality, which do not always reliably ensure future economic benefits. A certain part of a company's intangible assets is not consciously produced. Therefore, it may be hard to identify the date from which systematic knowledge is available as an asset. Thus, reliably measuring the costs of internally generated intangible assets causes difficulties in many cases. Other intangible assets represented by knowledge and practice form such an integral part of a company's operations that their values cannot be determined separately and establishing the related economic benefits also requires significant efforts. All these lead to the conclusion, on the one hand, that the majority of companies are not able or willing to recognise their intangible expenses as assets because it is too complicated (if not impossible) to verify that the conditions of capitalisation are met. On the other hand, the fulfilment of the conditions of capitalisation can be more probably and objectively proved in the case of acquired (typically purchased) than internally generated intangible assets.

**H1: Entities operating in the Hungarian accounting regulatory framework**

**a) do not recognise a significant portion of the intangible assets supporting the company's operations in the financial statements;**

**b) capitalise a larger portion of acquired than internally generated intangible assets.**

To test the Subhypothesis H1/a), I examined the frequency with which intangible assets are recognised in financial statements and the ratio of intangible assets to the balance sheet total based on the data of database AB1. Then, I evaluated the responses to the relevant questions of the questionnaire. Checking the Subhypothesis H1/a) results in the following conclusions:

- the vast majority of the financial statements of the companies examined either does not contain intangible assets or the intangible assets are recognised at a relatively low value and represent an extremely small portion of the total assets;

- most companies in Hungary do not really understand the notion of intellectual capital or its strategic and operative role within the company, which probably leads to the lack of conscious intellectual capital management.

Only the questionnaire-based research, i.e. the data source AB3 contained relevant data that enabled validation of the Subhypothesis H1/b). The results of the research show that

- the intangible assets recognised in the financial statements are not internally generated intangible assets in most cases;
- some accounting experts do not clearly understand the accounting notion of intangible assets.

***I accepted both subhypotheses based on the results of the empirical examination.***

### *3.2. Formulating and proving Hypothesis H2*

The first subhypothesis of the second hypothesis is based on international research concluding that the willingness to capitalise assets depends on the entity's size. [see e.g.: Ferrari– Montanari (2010)] The basic assumption is that small and medium-sized enterprises typically have internal sources of growth, base their activities primarily on internally generated intangible assets (that are often not consciously produced and not identified) and purchase, for lack of sufficient funds, only intangible assets that are indispensable to their operations (e.g. licences, software required for operation). However, large corporations are more likely to pursue conscious research and development activities with measurable and capitalisable expenses and to have the capital that allows them to purchase intangible assets that provide competitive advantages. Whether intangible assets play a vital or secondary role in a company's operations depends to a large extent on the direct economic environment (sector) in which a company is engaged. The second subhypothesis is based on the fact that companies invest higher amounts in intangible assets and thus capitalise more assets in markets in which constant renewal and individuality are prerequisites for attaining a competitive advantage. Statutory disclosure and reporting obligations made it possible to examine research and development expenses separately.

**H2: The recognition of intangible assets in the balance sheet and the amount of research and development expenses depend on**

**a) the entity's size,**

**b) the economic sector and the nature of the business activity.**

To verify the Subhypothesis H2/a), I established size categories of entities according to their balance sheet totals and turnover. For database AB1, I examined the distribution of intangible assets (and derived variables) by strata. I tested the extent of correlation between intangible assets and balance sheet totals, and between intangible assets and turnover by using correlation calculation. I treated research expenses similarly. The evaluation of database AB2 confirmed the Subhypothesis H2/a) as far as intangible assets are concerned, however, the deficiencies of the financial statements did not make it possible to materially verify the correlation between research expenses and the entity's size based on the data in database AB2. In order to verify the Subhypothesis H2/a), I also examined the responses to the questionnaire.

All in all, it can be established that

- the recognition of intangible assets in the balance sheet is linked to the entity's size: larger companies typically recognise intangible assets of a higher value and representing a higher proportion of total assets in their financial statements;
- there is a correlation between research expenses incurred internally[1] and the entity's size, primarily regarding the size categories established according to turnover.

In order to verify the Subhypothesis H2/b), I analysed the data in database AB1 by using the cluster analysis method. The procedure resulted in setting up three clusters:

- in some companies, the extent of own research activities is above the average and intangible assets represent a large proportion of the total assets;
- in certain economic activities, own research is typically not present but intangible assets supporting operation represent a higher-than-average proportion of the total assets;
- the majority of companies did not perform own research and nor did they recognise intangible assets in their financial statements.

***Based on the above, I accepted Hypothesis H2 and restricted research expenses to own research expenses.***

[1] The samples available did not provide for a full analysis of the correlation between research expenses and entity size.

### *3.3. Formulating and proving Hypothesis H3*

The Hungarian accounting regulation stipulates that the market value of assets shall be determined specially upon their entry, and regularly at each year-end valuation. As intangible assets are unique, there are no effective intangible markets or comparable market prices. The evaluation method backed by theory and practice is extremely complex, its application requires extensive experience. For lack of suitable experience, it is very expensive to get access to databases or to consult an expert. Due to the above difficulties I presumed that the book value of intangible assets is rarely checked against their market value in customary Hungarian practices.

**H3: The majority of companies do not quantify the market value of intangible assets at the year-end valuation.**

The hypothesis could be verified by using the detailed balance sheet data of database AB1 and the separate financial statements (AB2). In the analysis, I was able to examine the frequency of accounting value adjustments and impairment losses. The responses to the questionnaires helped to get a full picture, as they helped identify cases in which the year-end valuation was performed but no value adjustments were accounted because there was no permanent difference of a substantial amount.

Testing Hypothesis H3 resulted in the following statements:

- the majority of financial statements in which intangible assets were recognised do not include related value adjustments;
- the sample included a negligible number of cases in which impairment losses were accounted based on the determination of the market valuation;
- the responses to the questionnaire confirmed that the market value of intangible assets was usually not quantified at the year-end valuation;
- the primary sources of market valuation are the auditor's professional support and easily accessible market information;
- market valuation is primarily performed by examining the market values of similar assets and calculating the asset's replacement cost.

***I accepted the hypotheses based on the results of the empirical examination.***

### *3.4. Formulating and proving Hypothesis H4*

The Accounting Act stipulates minimum disclosure requirements for the notes to financial statements, thus also for intangible assets. However, companies need to share more than the statutorily required minimum amount of information with market players, if this is required to present a true and fair view. Yet, companies do not like sharing information apart from the obligatory - and easily accountable - minimum disclosure requirements. Information on intangible assets that could be valuable to market players is not even available in most cases because of the disproportion between their costs and benefits. International research shows that larger corporations disclose more information of a higher quality owing to their abundance of resources. [see e.g. Holland-Foo's research (2003), cited by Kang-Gray (2011)] Also, larger corporations depend to a greater extent on sources of investment and market perception. Therefore, the quantity and quality of disclosed information plays a more important role for them.

**H4: Disclosures in the financial statements on intangible assets**

**a) are typically confined to the minimum statutorily required information;**

**b) depend on the entity's size.**

I was able to derive the features of disclosures on intangible assets from an item-by-item examination of separate financial statements (AB2) and the evaluation of the results of the questionnaire-based research (AB3). The results of the research may be summarised as follows:

- companies fulfil the majority of the disclosure requirements stipulated by the Accounting Act but make limited disclosures on intangible assets apart from the obligatory disclosure requirements;
- no information is disclosed on intellectual capital elements that are not stated in the financial statements;
- the managements of companies do not consider it important to disclose information beyond the statutorily required minimum;
- apart from the accounting procedures required by law, no additional analysis and valuation is made regarding the intangible assets, therefore no additional information is available;
- larger entities (attracting public interest) disclose more detailed information on intangible assets;

- as companies rarely disclose information on intangible assets voluntarily, the difference between the different entity sizes is statistically not relevant.

***Based on the above, I accept Subhypothesis H4/a), and confirm Subhypothesis H4/b) for obligatory disclosures and reject it for voluntary disclosures.***

# 4. Summary of conclusions

## *4.1. Conclusions of the research*

The hypotheses outlined in the theoretical section are mostly supported by the empirical findings. The research was not only based on the available financial data, but also on the experience and opinions of professionals. The conclusions to the dissertation are summarised below. (The conclusions are based on the available information and, therefore, do not provide a comprehensive rendering of the facts.) It is a fact that the vast majority of domestic financial statements do not account for the intellectual capital elements that form the basis of business operations. Most of the intangible assets recorded are purchased IT-related assets (e.g. software) of lesser value, which are essential to the operation of modern businesses. It may be concluded that *intellectual capital elements are not only rare in Hungarian accounting records, but are also rather homogeneous in terms of their composition.*

It can be observed that *the majority of Hungarian companies does not even consider it important to do something with their intellectual capital.* However, long-term strategies can only be based on known data that can be measured in certain dimensions (not necessarily by numbers). The findings of the research show that the majority of Hungarian economic operators not only do not deal with identifying the key elements of their intellectual capital, which may create a competitive advantage in the future, but also *do not regularly review the value of the intangible assets identified and stated in their financial statements.*

It necessarily follows from the above that *the notes to domestic financial statements, at best, contain only disclosures that are required by law.* However, the primary function of the notes to the financial statements is to present all numerical data and narrative explanations that are necessary for giving "a true and fair view of the company's net assets and financial position and results of operations for the owners, investors, and creditors"[2]. The empirical research revealed that business leaders do not consider it important to disclose information beyond the statutory minimum, and even the accounting professionals who responded to the questionnaire think that it is not worth disclosing additional information about intangible assets. It also became clear that, *apart from the*

[2] Section 88 (1) of the Accounting Act

*accounting procedures required by law, no additional analysis and valuation is made regarding the intangible assets, therefore no additional information is available.*

The above considerations are closely linked to the current trend of *depreciation of the role of financial statements.* It partly follows from the Hungarian company structure that the management (who are often also the owners) perceive bookkeeping and preparing the financial statement as an administrative burden. Tax considerations are a dominant factor in the operation of companies, i.e the goal is to pay the least taxes, while minimizing the probability of adverse consequences. Compared to this, what difference does it make, if the company's financial statements do not give a true and fair view? This trend is reinforced by top-down control, when policy packages are aimed at reducing operational burden on companies, *thereby referring to the obligation to prepare financial statements and the audit obligation as administrative burdens.* The accounting standards are also moving towards simplification, but the regulators should keep in mind that *simpler standards do not necessarily mean lower standards.* For example, since Notes are not a required part of the special financial statement for micro-enterprises that is available from this year, this implicitly suggests that disclosing anything but raw numbers would be irrelevant in the case of small firms. At the same time, market players are looking for additional financial and market information and, before major business transactions (such as acquisitions), appoint professionals for the revaluation of the company or business line concerned, although the financial statements, which provide a true and fair view of the business unit, are publicly available. (Or do they?)

In an economic environment in which the practical value of the financial statements is called into question, the disclosure of intangible assets in the financial statements (or in any other form) might seem irrelevant. However, the two are closely related. *Is it not possible that the financial statements cannot satisfy the true and fair view requirement, among other factors because they do not include a number of resources that are essential for business operation and provide real economic value to the economic operator?* This is obviously because these intellectual capital elements are often "invisible"[3], and difficult to describe or define. Even if the economic operators manage to do this, they will have difficulty establishing the value of intangible assets that are created organically by the business. Also, in the case of technical, organisational and market innovations, the certainty of future returns is another issue. This is because the purpose of innovation is to create a new

[3] although this concept is widely used in the literature, I disagree with this belief, because a company must make these resources visible, and it is a serious problem, if they remain invisible

combination, and something that has not been tested in the past is necessarily uncertain. These questions are truly difficult and pose a professional challenge. But then, why do we accept that these assets are completely ignored in market communication? It is necessary to find solutions that would ensure that the financial statements show relevant and useful business information reflecting the actual market situation of the company.

### *4.2. Further suggestions and proposals for the improvement of the Hungarian regulations*

Based on the above, I believe it is essential to rethink the role of financial statements. This has already happened in Hungarian academic research[4], but less so on the level of accounting regulations and the accounting profession. As further research, it would be useful *to map out the solutions that allow the financial statements to provide a view that is indeed true and fair.* This revised structure could probably also *include the so-far-overlooked intellectual capital elements* in some form, since they are integral to the concept of a true and fair view.

It would be useful to explore the reasons why *the majority of Hungarian companies do not really understand the notion of intellectual capital or its strategic and operative role within the company,* which necessarily implies the lack of conscious intellectual capital management. The identification of causes and, as a result, making domestic companies more aware in this field could contribute to sustainable corporate governance and enhancing competitiveness both in domestic and international markets.

I consider it necessary to *eliminate the accounting framework's shortcomings regarding the presentation and measurement of intangible assets.* It is possible that, under the revised structure of financial statements, the balance sheet will still not include intangible assets, because they are considered too uncertain and too risky and therefore do not meet the requirement of reliability. However, this does not of mean that we should give up on the presentation of these assets altogether. We need to find the right place and form that could accommodate these assets that fail to meet the strict balance sheet requirements, but are essential for business operation. I believe that only such a complex accounting framework could ensure a really true and fair view.

[4] see: Lakatos (2009)

*Recognising intangible assets could be developed in three possible forms.*

1. First, *we need to make a list of intellectual capital elements that meet the balance sheet requirements in effect* (and their recognition as assets is otherwise mandatory), but because of other considerations – typically to lower the tax expense of the business – are recognised as expenses for the current year. This requires awareness from the accounting and auditing professionals.

2. The other proposal concerns *the improvement of the current accounting system.* According to the accounting regulations in effect, contingent liabilities, commitments and receivables originating from contracts that are outstanding at the balance sheet date and whose recognition in the balance sheet depends on a subsequent event or the fulfilment of the contract must be stated as off-balance sheet items[5]. Since these assets do not meet all the balance sheet requirements, they are not included in the balance sheet, but are maintained in separate accounting records. Also, the publicly available notes to the financial statement should include the nature and financial implications of the off-balance sheet items with significant risks or benefits that must be presented to give a true and fair view of the company's financial position[6]. So, currently, off-balance sheet items cannot be recognised in the balance sheet, but, since the accounting regulator finds them relevant from the perspective of the company's market perception, they believe that it is necessary to maintain separate accounting records and narrative explanations of these items in the notes to the financial statements. The question arises as to why the accounting regulations do not take into account intangible assets that similarly do not fully meet the balance sheet requirements in effect, but whose role in a company's operations is just as important as the role of the above claims and liabilities (if not more important). Therefore, I believe it would be a good solution, if *intangible assets that* were identified (as part of the companies' intellectual capital management efforts), but, *at present, cannot be recognised in the balance sheet, would be recognised as off-balance-sheet items in separate accounting records.* As a result, the company's intellectual capital elements could be monitored, their development and use could become more conscious, and it could be reviewed from year to year, which off-balance-sheet items have in the meantime been recognised in the balance sheets (e.g. due to more certain future returns).

[5] Section 3 (8) point 16 of the Accounting Act
[6] Section 90 (3) point c) of the Accounting Act

3. To make the information shown by the complete financial statements more relevant, *the narrative data complementing the numerical data should include a description of the company's intellectual capital*. The regulations currently in force only prescribe the numerical valuation of intangible assets in the balance sheet. This could be complemented with the presentation of intangible assets recognised as off-balance-sheet items and the description of intellectual capital elements that are not measured in monetary terms. These are the relevant information that determine the company's value and market position, but fall outside the current accounting framework. This additional disclosure could ensure that the parts of the financial statements provide a complex and truthful view of the company's value and operations.

*However, the implementation of these three proposals requires the fulfilment of several conditions.* First of all, Hungarian business leaders must realise that, in the markets already under pressure from the current economic recession, and in the fierce competition for customers, the capacity for self-renewal and the related conscious organisational development are becoming increasingly important. In the current economic framework, knowledge and intellectual capital may have a critical impact on a company's success and competitive edge. If business leaders realise this, there will be a need for simple-to-use and accessible models that allow the identification and management of intellectual capital elements. These models only provide a framework that must be filled in by the companies during their operations. A model that would allow the effective management of intellectual capital elements could be developed at the formal regulatory level or by certain professional forums. A practical model that helps the identification and (financial or non-financial) valuation of intellectual capital elements could also serve as the basis for the accounting-based valuation of these assets. In this way, the intellectual capital management model would be linked to the financial reporting system for intangible assets. The development and use of such a model is not a fictional example – it has a long tradition e.g. in Scandinavian countries.

These issues pose a great challenge for CEOs, accounting regulators and the accounting profession. However, sooner or later, the accounting systems must adapt to the changed economic circumstances – the question is how quickly and how efficiently will this take place.

## 5. Main references

Andriessen, Daniel [2004]: IC valuation and measurement: classifying the state of the art. *Journal of Intellectual Capital*. Vol. 5, Iss. 2 pp. 230-242

Andrikopoulos Andreas [2010]: Accounting for Intellectual Capital: On the Elusive Path from Theory to Practice. *Knowledge and Process Management*. Vol. 17, Iss. 4 pp. 180-187

Austin, Lloyd [2007]: Accounting for intangible assets. *University of Auckland Business Review*. Vol. 9, Iss.1 pp. 63-72

Balázs et al. [2006]: *Az IFRS-ek rendszere. A Nemzetközi Pénzügyi Beszámolási Standardok rendszere*. Magyar Könyvvizsgálói Kamara Oktatási Központ Kft., Budapest

Baricz Rezső [1990]: *Mérlegtan*. Aula Kiadó, Budapest

Basu, Sudipta – Waymire, Gregory [2008]: Has the importance of intangibles really grown? And if so, why? *Accounting and Business Research*. Vol. 38, Iss. 3 International Accounting Policy Forum. pp. 171-190

Beattie, Vivien – Pratt, Ken [2002]: *Voluntary annual report disclosures: What users want?* Institute of Chartered Accountants of Scotland, Edinburgh

Bontis, Nick [1998]: Intellectual capital: an exploratory study that develops measures and models. *Management Decision*. Vol. 36, Iss. 2 pp. 63-76

Bontis, Nick [1999]: Managing organizational knowledge by diagnosing intellectual capital: framing and advancing the state of the field. *International Journal of Technology Management*. Vol. 18, Nos. 5/6/7/8, pp. 433-463

Bontis, Nick [2001]: Assessing knowledge assets: a review of the models used to measure intellectual capital. *International Journal of Management Reviews*. Vol. 3, Iss. 1 pp. 41-60

Boros Judit – Rakó Ágnes [2010]: KPMG-felmérés a tőzsdén jegyzett magyar társaságok körében – 2009. *Számvitel-Adó-Könyvvizsgálat*. 52. évf. 6. szám

Boross Zoltán – Gyökér Irén [1999]: Kísérlet a szellemi tőke értékének meghatározására. *Gazdaság, vállalkozás, vezetés*. 2. szám pp. 15-18

Bosnyák János [2003]: *Számviteli értékelési eljárások hatása a vállalkozások vagyoni, jövedelmi és pénzügyi helyzetére*. Doktori értekezés. Budapesti Közgazdaságtudományi és Államigazgatási Egyetem

Bőgel György [1998]: A vagyon esténként hazamegy. *Vezetéstudomány*. 29. évf. 1. szám pp. 22-27

Brand Finance [2009]: *Global Intangible Finance Tracker 2009. An annual review of the world's intangible value*
*http://doc.mbalib.com/view/115d0dde8b21b82c256d21834cdb026a.html (Letöltés: 2012. szeptember 13.)*

Brooking Annie [1996]: *Intellectual Capital: Core Asset for the Third Millenium Enterprise.* International Thomson Business Press: London

Czoboly Gergely [2009]: A szellemi vagyon értékelése és értékbecslésének módszerei. *Infokommunikáció és jog*. 6. évf. 6. szám pp. 233-240

Danish Ministry of Science [2003]: *Intellectual Capital Statements – The New Guideline*. Denmark

Deák István [2008]: A számvitel vagyonfelfogásáról. *Számvitel-Adó-Könyvvizsgálat*. 50. évf. 12. szám pp. 497-505

DiPiazza, Samuel A. et al [2006]: *Global Capital Markets and the Global Economy: A Vision from the CEOs of the International Audit Networks*.
*http://www.cybsoc.org/CEO_Vision.pdf (Letöltés: 2012. október 10.)*

Dosi, Giovanni [1988]: Sources, Procedures and Microeconomic Effects of Innovation. *Journal of Economic Literature*. Vol. 26 pp. 1120-1171

Drucker, Peter F. [1993]: *Post-Capitalist Society*. HarperCollins Publishers. New York

Eccles, Robert G. [1991]: The Performance Measurement Manifesto. *Harvard Business Review*. Vol. 69, Iss. 1 pp. 131-137

Eccles, Robert G. et al. [2001]: *The Value Reporting Revolution: Moving Beyond the Earnings Game*. New York, John Wiley and Sons

Edvinsson, Leif [1997]: Developing Intellectual Capital at Skandia. *Long Range Planning*. Vol. 30, Iss. 4 pp. 366-373

Edvinsson, Leif – Malone, Michael Shawn [1997]: *Intellectual Capital: Realizing Your Company's True Value by Finding Its Hidden Brainpower*. HarperCollins, New York

Edvinsson Leif – Sullivan Patrick [1996]: Developing a Model for Managing Intellectual Capital. *European Management Journal*. Vol. 14, Iss. 4 pp. 356-364

Eperjes Ferenc [1999]: A szellemi tőkéről. *Számvitel Adó Könyvvizsgálat*. Január pp. 19-20

Ernst & Young [2009]: *Acquisition Accounting: What's Next for You*
*http://www.ey.com/Publication/vwLUAssets/Allokering_av_merverdier_ved_opp.kj%C3%B8p./$FILE/TAS_Acquisition_accounting_Whats_next_for_you.pdf (Letöltés: 2012. szeptember 2.)*

Fama, Eugene F. [1970]: Efficient capital markets: a review of theory and empirical work. *Journal of Finance*. Vol. 25, Iss. 2 pp. 383-417

Ferrari, Mascia – Montanari, Stefano [2010]: The IAS/IFRS app.lication on the intangible assets of non-listed companies. *Journal of Modern Accounting and Auditing*. Vol. 6, Iss. 5 pp.1-21

Foster, Benjamin P. – Fletcher, Robin – Stout, William D. [2003]: Valuing Intangible Assets. *CPA Journal*. Vol. 73, Iss. 10 pp. 50-54

Gyökér Irén [2004]: A vállalat szellemi tőkéje – számolatlan vagyon. *Harvard Business Manager*. 6. évf. 6. szám pp. 1419-2519

Hoegh-Krohn, Nils E. Joachim – Knivsfla, Kjell Henry [2000]: Accounting for Intangible Assets in Scandinavia, the UK, the US, and by the IASC: Challenges and a Solution. *The International Journal of Accounting*. Vol. 35, Iss. 2, pp. 243-265

Holmen, Jay [2005]: Intellectual Capital Reporting. *Management Accounting Quarterly*. Vol. 6, Iss. 4, pp. 1-9

Howrey Simon Arnold & White [2002]: *A Survey of Investor Attitudes on IP http://www.pdfio.com/k-1445543.html (Letöltés: 2012. október 24.)*

IASB [2007]: *Initial Accounting for Internally Generated Intangible Assets*. International Accounting Standards Board, London

ICAEW [1998]: *Corporate Governance: The 21st Century Annual Report*. The Institute of Chartered Accountants in England and Wales. Moorgate Place, London

Jennings, Ross – Thompson II, Robert B. [1996]: Accounting for Intangibles in the United States. *Issues in Accounting Education*. Vol. 11, Iss. 2 pp. 491-495

Juhász Péter [2004a]: A szellemi tőke értékelési problémái. *Hitelintézeti Szemle*. 3. évf. 5. szám pp. 59-82

Juhász Péter [2004b]: *Az üzleti és könyv szerinti érték eltérésének magyarázata – Vállalatok mérlegen kívüli tételeinek értékelési problémái*. Doktori értekezés. Budapesti Corvinus Egyetem

Káldos Péter ([2006]a): A szellemivagyon-értékelés elméleti és gyakorlati módszerei. *Iparjogvédelmi és Szerzői Jogi Szemle*. 111. évf. 4. szám pp. 5-26

Kang, Helen – Gray, Sidney J. [2011]: The Content of Voluntary Intangible Asset Disclosures: Evidence from Emerging Market Companies. *Journal of International Accounting Research*. Vol. 10, Iss. 1 pp. 109-125

Khoury, Sam – Daniele, Joe – Germeraad, Paul [2001]: Selection and App.lication of Intellectual Property Valuation Methods In Portfolio Management and Value Extraction. *Les Nouvelles*. September pp. 77-86

Kovács Dániel Máté [2013]: A valós érték számviteli szerepe és alkalmazása a magyar szabályozási környezetben. Doktori értekezés. Budapesti Corvinus Egyetem

Kovács Kármen [2011]: A testetlen eszközök jelentősége a vállalat működésében, pénzügyi teljesítményében és piaci értékelésében. *Vezetéstudomány*. 42. évf. 2. szám pp. 49-57

Laáb Ágnes [1994]: A humán tőke értéke és számbevétele. *Vezetéstudomány*. 25. évf. 12. szám pp. 35-40

Lakatos László Péter [2009]: *A számvitel szabályozása és a pénzügyi kimutatások hasznosságának megítélése*. Doktori értekezés. Budapesti Corvinus Egyetem

Lev, Baruch [2001]: *Intangibles: Management, Measurement, and Reporting*. Washington D.C. Brookings Institution Press

Lev, Baruch [2004]: Az immateriális javakban rejlő versenyelőny fokozása. (fordította: Gyökér István) *Harvard Business Manager*. 6. évf. 6. szám pp. 39-47

Lev, Baruch – Aboody, David [1998]: The Value Relevance of Intangibles: The Case of Software Capitalization. *Journal of Accounting Research*. Vol. 36, Supp.lement pp. 161-191

Lev, Baruch – Sougiannis, Theodore [1996]: The capitalization, amortization, and value-relevance of R&D. *Journal of Accounting and Economics*. Vol. 21 pp. 107-138

Lev, Baruch – Zarowin, Paul [1999]: The Boundaries of Financial Reporting and How to Extend Them. *Journal of Accounting Research*. Vol. 37, Iss. 2 pp. 353-385

Mádi Csaba [2004]: A szellemi vagyon értékelése. *Magyar Iparjogvédelmi és Szerzői Jogi Egyesület Közleményei*. 45. szám pp. 137-156

Marr, Bernard – Gray, Dina – Neely, Andy [2003]: Why do firms measure their intellectual capital? *Journal of Intellectual Capital*. Vol. 4, Iss. 4 pp. 441-464

Matolcsy, Zoltan – Wyatt, Anne [2006]: Capitalized intangibles and financial analysts. *Accounting and Finance*. Vol. 46 pp. 457-479

Meritum [2001]: *Guidelines for Managing and Reporting on Intangibles (Intellectual Capital Report)*
*http://www.pnbukh.com/files/pdf_filer/MERITUM_Guidelines.pdf*
*(Letöltés: 2012. augusztus 31.)*

Nagy Gábor [2009]: Kutatás-fejlesztés számvitele. Számviteli Tanácsadó. 1. évf. 9. szám pp. 2-7

Osman Péter [1991]: Immateriális vagyon, szellemi vagyon. *Vezetéstudomány*. 22. évf. 9. szám pp. 19-25

Pike, S. – Roos, G. [2004]: Mathematics and modern business management. *Journal of Intellectual Capital*. Vol. 5, Iss. 2 pp. 243-256

Powell, Stephen [2003]: Accounting for intangible assets: current requirements, key players and future directions. *European Accounting Review*. Vol. 12, Iss. 4 pp. 797-811

Reilly Robert F. – Schweihs Robert P. [1998]: *Valuing intangibles assets*. McGraw-Hill. New York

Romer, Paul M. [1990]: Endogenous Technological Change. *Journal of Political Economy*. Vol. 98, Iss. 5 pp. S71-S102

Roos, Goran – Roos, Johan [1997]: Measuring your Company's Intellectual Performance. *Long Range Planning*. Vol. 30, Iss. 3 pp. 413-426

Roos, Goran – Roos, Johan – Dragonetti, Nicola Carlo – Edvinsson, Leif [1997]: *Intellectual Capital: Navigating in the New Business Landscape*. New York University Press, New York

Sajtos László – Mitev Ariel [2007]: SPSS kutatási és adatelemzési kézikönyv. Alinea Kiadó, Budapest

Shepherd, Nick A. et al. [2010]: *Unrecognized Intangible Assets: Identification, Management, and Reporting*. Institute of Management Accountants, USA

Skinner, Douglas J. [2008]: Accounting for intangibles – a critical review of policy recommendations. *Accounting and Business Research*. Vol. 38, Iss. 3 pp. 191-204

Skryme, David [1998]: *Measuring the Value of Knowledge*. Business Intelligence, London

Stewart, Thomas A. [1991]: Brainpower. *Fortune*. Vol. 123, Iss. 11 pp. 44-52

Stewart, Thomas A. [1997]: *Intellectual Capital: The New Wealth of Organization*. Doubleday/Currency, New York

Sullivan, Patrick H. [2000]: *Value-driven Intellectual Capital: How to convert Intangible Corporate Assets into Market Value*. Wiley, New York

Sveiby, Karl-Erik [1989]: *The Invisible Balance Sheet*. The Konrad Group, Stockholm

Sveiby, Karl-Erik [1996]: *The Intangible Assets Monitor*
*http://www.sveiby.com/articles/companymonitor.html (Letöltés: 2012. 08. 21.)*

Sveiby, Karl-Erik [1997]: *The New Organizational Wealth: Managing and Measuring Knowledge-Based Assets*. Berrett-Koehler, New York

Sveiby, Karl-Erik [1998]: *Intellectual Capital and Knowledge Management*
*http://www.sveiby.com/articles/IntellectualCapital.html (Letöltés: 2012. 08. 21.)*

Sveiby, Karl-Erik [2001]: *Methods for Measuring Intangible Assets*
*http://www.sveiby.com/articles/IntangibleMethods.htm (Letöltés: 2012. 08. 21.)*

Sveiby, Karl-Erik: *The Brief History of ICM Movement*
*http://www.sveiby.com/articles/icmmovement.htm (Letöltés: 2012. 08. 21.)*

Upton, Wayne S. [2001]: *Business and Financial Reporting Challenges from the New Economy*. Financial Accounting Standards Board, Norwalk, Connecticut

Varsányi Judit [1995]: A tudástőke értéke és hasznosítása. *Vezetéstudomány*. 26. évf. 3. szám pp. 5-16

Wyatt, Anne [2001]: Accounting for Intangibles: The Great Divide between Obscurity in Innovation Activities and the Balance Sheet. *The Singapore Economic Review*. Vol. 46, Iss. 1 pp. 83-117

Wyatt, Anne [2005]: Accounting Recognition of Intangible Assets: Theory and Evidence on Economic Determinants. *The Accounting Review*. Vol. 80, Iss. 3 pp. 967-1003

# 6. Publications of the author in the topic of the thesis

## Referred professional journals

1. Dr. Saxné Dr. Andor Ágnes [2013]: Immateriális javak a számviteli gyakorlatban. *Számvitel-Adó-Könyvvizsgálat*. 12. szám. p. 593. www.szak-ma.hu
2. Dr. Saxné Dr. Andor Ágnes [2013]: Immateriális javak a számviteli gyakorlatban. *Számvitel-Adó-Könyvvizsgálat*. 12. szám. p. 593. www.szak-ma.hu
3. Dr. Saxné Dr. Andor Ágnes [2012]: Immateriális javak a beszámolóban. *Számvitel-Adó-Könyvvizsgálat*. 11. szám. http://www.szak-ma.hu/files/tanulmany_andor.pdf
4. Andor Ágnes – Fazekas Dóra [2008a]: A szennyezési jogok kezelése a gazdálkodó szemszögéből: Számviteli kérdések. *Vezetéstudomány*. 3. szám pp. 44-59
5. Andor Ágnes – Olma Frigyes – Reich András – Újhelyi Beáta [2006]: Fókuszban a know-how II. *Számvitel-Adó-Könyvvizsgálat*. 12. szám pp. 539-541
6. Andor Ágnes – Olma Frigyes – Reich András – Újhelyi Beáta [2006]: Fókuszban a know-how I. Számvitel-Adó-Könyvvizsgálat. 11. szám pp. 483-488

## Others

### *Conference paper*

1. Andor Ágnes [2008b]: Az apportált szellemi vagyon értékelése. 60 éves a Közgazdaságtudományi Egyetem. *A Jubileumi Tudományos Konferencia alkalmából készült tanulmányok: Gazdálkodástudományi Kar*. Aula Kiadó. pp. 119-129

### *Journal articles*

1. Andor Ágnes – Fortvingler Judit – Kardos Péter [2009a]: Tőkeműveletek. *Számviteli Tanácsadó*. 11. szám pp. 2-11
2. Andor Ágnes [2009b]: A szellemi termékek számvitele. *Számviteli Tanácsadó*. 10. szám pp. 2-12
3. Andor Ágnes – Újhelyi Beáta [2009c]: Káresemény a számvitelben. *Számviteli Tanácsadó*. 7-8. szám pp. 2-20